

Message Text

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E.O. 11652: GDS

SUBJECT: EGYPT'S EMERGENCY FINANCIAL ASSISTANCE REQUIREMENTS

REF: A. STATE 133630 B. CAIRO 5796

1. THE CALCULATION OF EGYPT'S FINANCIAL ASSISTANCE REQUIREMENTS CONTAINED IN THE DRAFT LETTER PASSED TO THE GOE PER REF A ASSUMES (A) SUBSTANTIAL COMPRESSION OF THE PROJECTED IMPORT LEVEL FOR CY 1975 AND (B) CONTINUED FINANCING OF IMPORTS BY SHORT-TERM BANKING FACILITIES IN MAGNITUDE OF LE 700 MILLION, ALBEIT THE STATEMENT IS MADE THAT THE CLOSURE OF THE PROJECTED BALANCE OF PAYMENTS GAP WILL RESULT IN GOOD PROSPECTS FOR THE REFINANCING OF SUCH FACILITIES ON BETTER TERMS. AS EXPECTED, THE GOE CONTINUES TO RESIST ACCEPTANCE OF THESE ASSUMPTIONS AND CONTINUES TO INSIST THAT ITS REQUIREMENTS FOR FINANCIAL ASSISTANCE ARE IN NEIGHBORHOOD OF LE 1.5 BILLION. THIS FIGURE INCLUDES, OF COURSE, THE NET DEFICIT OF LE 730 MILLION AS SET OUT IN DRAFT LETTER PLUS REFINANCING OF LE 700 MILLION IN OUTSTANDING BANKING FACILITIES.

2. WHILE PROSPECTS OF CONVERTING SHORT-TERM LIABILITIES INTO LONGER TERM CREDITS MAY IMPROVE IN FUTURE, GOE INTEREST IN APPEALING FOR IMMEDIATE FINANCIAL ASSISTANCE FOR THIS PURPOSE IS REASONABLE ONE, GIVEN 18 TO 20

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PERCENT INTEREST CHARGES THAT SHORT-TERM CREDITS

INVOLVE, EVEN THOUGH IT MAY BE UNREALISTIC TO EXPECT SUFFICIENT FOREIGN ASSISTANCE TO OBVIATE NEED FOR ALL SUCH SHORT-TERM FINANCING. FURTHERMORE, EVENTUAL IMPROVEMENT IN REFINANCING PROSPECTS DOES NOT ALLEVIATE CURRENT CASH PROBLEM AS THE LE 700 MILLION IN OUTSTANDING SHORT-TERM DEBT CONTINUES TO COME DUE AND PAYABLE.

3. IN RECOGNITION OF SEPARATE CASH PROBLEM, IBRD TEAM NOW IN CAIRO HAS MADE USEFUL CONCEPTUAL DISTINCTION BETWEEN THREE SEPARATE COMPONENTS OF GOE FOREIGN EXCHANGE PLIGHT AS REFLECTED IN OFFICIAL FOREIGN EXCHANGE BUDGET. ASSUMING THAT ACCOUNTS WITH BILATERAL PAYMENTS COUNTRIES CAN AND WILL BE HANDLED SEPARATELY, IBRD TEAM HAS FOCUSED ON THE FREE FOREIGN EXCHANGE PORTION OF THE BUDGET IN THREE FOLLOWING WAYS:

A. CASH DEFICIT

CALCULATING THE DIFFERENCE BETWEEN RECEIPTS ON CURRENT ACCOUNT OF SOME LE 995 MILLION AND REQUIRED CASH OUTFLOWS OF LE 1,080 MILLION (DEBT OBLIGATIONS OF LE 911 MILLION, CURRENT PAYMENTS FOR INVISIBLES LE 106 MILLION, AND DOWN PAYMENTS ON CAPITAL GOOD IMPORTS OF LE 63 MILLION), THE IBRD TEAM REACHES A CASH DEFICIT OF SOME 85 MILLION, ASSUMING ALL OTHER IMPORTS WERE FINANCED ON A CREDIT BASIS.

B.

CALCULATING THE DIFFERENCE BETWEEN IMPORTS OF LE 1,709 MILLION (NON-CAPITAL GOODS OF LE 1,397 AND POSTPONED PAYMENTS FOR CAPITAL GOODS OF LE 312) AND PROJECTED FINANCING OF LE 1,365 MILLION (NEW BANKING FACILITIES OF LE 798, SUPPLIER CREDITS OF LE 230, COTTON FINANCING OF LE 25, AND DEFERRED PAYMENTS FOR CAPITAL GOODS OF LE 312) THE IBRD TEAM REACHES A COMMODITY IMPORT FINANCING GAP OF LE 344 MILLION.

C. REFINANCING OF BANKING FACILITIES

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RECOGNIZING THE DIFFICULTY THE GOE WILL HAVE IN PUTTING ITS FINANCIAL HOUSE IN ORDER WITH A CONTINUING BURDEN OF OUTSTANDING BANKING FACILITIES, THE IBRD CONSIDERS DESIRABLE THE REFINANCING OF AT LEAST PART OF THE LE 700 MILLION IN OUTSTANDING SHORT-TERM CREDITS RATHER THAN INCREASING THEM TO LE 798 MILLION. A REASONABLE TARGET WOULD BE TO REDUCE BY HALF THE OUTSTANDING AMOUNT BY THE END OF CY 1975, I.E.,

DOWN TO ABOUT LE 350 MILLION.

4. COVERAGE OF THE ABOVE THREE COMPONENTS WOULD INDICATE A REQUIREMENT FOR EXTERNAL FINANCING OF ABOUT LE 877 MILLION AS FOLLOWS:

A. CASH REQUIREMENT OF LE 85 MILLION

B. REQUIREMENT FOR LE 350 MILLION IN CASH LOANS OVER THE NEXT SIX MONTHS TO REDUCE SHORT-TERM DEBT BY HALF.

C. REQUIREMENTS FOR LE 442 MILLION IN COMMODITY IMPORT FINANCING TO COVER LETTERS OF CREDIT TO BE OPENED BEFORE THE END OF CY 1975 (LE 344 MILLION PER PARAGRAPH 3B ABOVE AND LE 98 MILLION TO REPLACE PROJECTED INCREASE IN BANKING FACILITIES.

5. THE IBRD TEAM FEELS, HOWEVER, THAT THE PROJECTED IMPORT LEVEL COULD BE REDUCED BY UP TO LE 150 MILLION. IF SO, THE TOTAL REQUIREMENT FOR EXTERNAL FINANCING COULD BE REDUCED TO LE 727 MILLION.

6. FURTHERMORE, THE IBRD TEAM ALSO AGREES THAT THE LE 85 MILLION IN THE CASH DEFICIT COULD ALSO BE REDUCED BY DELAYS IN IMPORT OF CAPITAL GOODS FOR PROJECTS. WE THINK THAT A REDUCTION OF SOME LE 30 MILLION WOULD BE A REALISTIC PROJECTION. IF SO, THE TOTAL REQUIREMENT WOULD BE FURTHER REDUCED TO LE 700 MILLION.

7. IN CONCLUSION, IT SHOULD AGAIN BE NOTED THAT THE ABOVE PRESENTATION ASSUMES, AND WE THINK RIGHTFULLY
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SO, THAT THE DIFICIT WITH BILATERAL PAYMENTS COUNTRIES OF SOME LE 200 MILLION SHOULD BE MANAGED SEPARATELY.
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